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An Environmental/Regulatory Update
Internal Store Theft: Stopping the Profit Drain
How to Improve Your ROI

NPN

National Petroleum News

Good News, Bad News:

Marketers Hang Tough

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Editor's Viewpoint

I think many marketers and C-store operators would agree that if we wanted to pin a label on 1991, the "Year of Survival" would be quite appropriate. For quite a few of you, I'm sure that just keeping the doors open was a daily struggle.

But most of you have survived. However, I also believe that in 1992 we all have to extend our reach—and our commitment—beyond survival. To do that, we have to equip ourselves with the very best tools available. And the best tool I can think of is *information*. Information that tells you what this industry is all about, and that helps you prepare for and execute the decisions that will ensure your future success.

But getting that information is hard work. And that's why our mission here at *NPN* this year will be to get you all of the useful and important information we can possibly assemble to help you succeed in 1992.

My personal choice for a fitting tag for 1992 is the "Year of Research." At the end of 1991, I set the wheels in motion for an intensified research effort here at *NPN*. The goal of this research program will be to provide you with a wide range of useful editorial information throughout 1992. There will be a new focus on in-depth analysis and statistical profiles relevant to the marketer/C-store business. *NPN* staffers will be looking closely at every aspect of petroleum/C-store operations.

As you can see from this month's cover, we have already kicked off this research program by conducting a profile of the marketers and C-store operators who read *NPN*.

This survey turned up some interesting data. In some areas, it accurately reflects the rough period that many marketers and C-store operators have been through. The survey also reveals that there are a lot of tough-minded entrepreneurs out there who are upbeat about their companies' future plans. In fact, even though there are some serious problems in the marketplace, many are faring pretty well under often trying circumstances.

One of the most intriguing aspects of the report is an indication that the distinction between "petroleum marketer" and "convenience store operator" is getting increasingly blurred—either that or a fair number of traditional oil jobbers are now masquerading as C-store operators. You see, we asked respondents to describe the primary type of business they were in: marketer (wholesale/retail) or C-store operator selling gasoline. Now, a small, but not insignificant number of respondents who checked the latter category provided additional information about their operations that would classify them, in many areas at least, as both C-store companies *and* full-line petroleum marketers.

Apparently, there is a new "hybrid" operator in our industry; one whose roots are in petroleum marketing, but who now is so heavily involved in C-stores that "C-store operator selling gasoline" is the first category that pops into his or her mind to describe the business. Definitions are important, but not always. What is important is to recognize how deeply entrenched marketers have become in the C-store business. And vice versa.

The type of statistical and operational data shown in this survey is only the beginning. I am excited about what lies ahead in 1992, not only for *NPN*, but for all of you.

I am convinced 1992 will be better than last year and I am determined to help each of you improve your bottom line. I am confident we have the editorial product that will help you achieve bigger and better things this year. So hold on to your hats.—*Peggy Smedley*

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● TRENDS

'92 May See Tough Times for Trade Assns.

This may be the year that the oil industry's trade associations—state, regional and national—feel the retrenchment heat like they never have before. Several that have been bumping their tails on the sidewalk in recent years might not be able to weather another year of declining memberships, poor cash flows and increasingly anemic budgets. For others, it could be a real struggle to meet payrolls and rental expenses. Don't count them out yet, however; associations have proved themselves amazingly resilient in staying alive. But the survival odds are getting tougher.

The issue, of course, isn't that the associations have outlived their usefulness or anything like that. It's simply a matter of money. Life is real and life is earnest, they say, and if marketer margins and volumes continue to be depressed, and the economy continues its wobbly way, only the healthiest and more ingenious associations out there are going to stay ahead of the money problems. A year or so ago, the Petroleum Marketers Assn. of America (PMAA) predicted that only half of the distributors now in business will still be around by the year 2000. Associations depend—not rely, depend—on new member enrollments to replace dropouts, mergers and business failures. If the population forecasts continue to be negative, where will the fresh money come from to keep things alive, let alone expand and take on new projects?

There's no lack of issues at home, in the state legislatures and the Congress itself. All of them are technically vital to the survival of gasoline wholesalers, retailers and fuel oil merchants.

What brings this to the fore, however, was the response of some participants in the recent American Petroleum Institute (API) and Society of Independent Gasoline Marketers of America (SIGMA) meetings in Houston.

API pulled about 2,000 registrants, SIGMA maybe 400 or so, including wives and other distaff members of the oil fraternity.

Not bad, some hallway observers noted, about par with the way things have been going in recent years. But compared with the so-called "good old days," absolutely pathetic.

Only the old timers will remember that API's annual meetings throughout most of the '50s officially registered as many as 7,800 to 8,000 attendees. Virtually all of the annual meetings at that time were held in Chicago because that was the only place that had enough big hotels to take care of the mobs of conventioneers. It used to be said that when API was in town, travelers couldn't get a decent hotel room within 50 miles of downtown. One reason for this was that many companies, chary of letting their stockholders realize how many expense accounts were involved in the API meetings, disguised their registration figures by permitting only certain personnel to sign in. Thus, there were many more than the registration totals indicated. Some people, at the time, guessed the number of oilmen in town for the sessions exceeded 10,000.

Another surprise of the times: Although the API sessions officially began on Sundays, big divisional committees presumably had so much to do that they had to open their talkathons on the Thursday preceding the aforesaid Sunday. General and divisional sessions continued through the week, ending at noon on Thursday. Still another eyebrow lifter: Chicago's airports had so many private (oil industry) planes parked for the duration that commercial flights had to take it easy getting in and out of the place.

In the early '60s, API's board itself mandated program cutbacks. In recent years, registrations have been around the 2,000 mark. In Houston in November, only a handful of early birds were around on Saturday and virtually everyone had gone home by Tuesday afternoon.

Another item of interest: even big names like former British Prime Minister Margaret Thatcher didn't generate big crowds as one might expect she would. The ballroom was only three-fourths to four-fifths filled when she made her general session speech.

This year could be interesting for all associations.

—By J. Richard Shaner

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

OCTOBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.180	*	$1.122	$1.307
Regions				
Northeast	1.271	*	1.191	1.402
North Central	1.143	*	1.105	1.271
South	1.170	*	1.099	1.275
West	1.159	*	1.118	1.297

** Data no longer collected or available.*
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/29/91	11/30/90
Gasoline (Total)	206,543	221,100
Unleaded Gasoline (*)	165,721	171,347
Jet Kerosine	44,113	45,281
Distillates	140,053	132,850
Residual	49,119	51,202

(*) Leaded regular prices no longer collected by Bureau of Labor Statistics.
Source: American Petroleum Institute.

Good News, Bad News: Marketers Hang Tough

Not many petroleum marketers and convenience store operators who sell gasoline would look back at the past year or so with any degree of fond recall. It has been a rough period for most, with "price inversions" at times making mincemeat out of gasoline margins, with the recession undermining consumer demand and with the continuing onslaught of environmental regulations taking their toll on the cash reserves of marketers just about everywhere.

A rather grim picture, one might say. But then, petroleum marketers and convenience store operators have been through turbulent times before – and survived. In addition, based on the picture that emerges from *NPN*'s just-completed survey, petroleum marketers and convenience store executives are more upbeat than gloomy about their firms' prospects.

The data in the survey, compiled from many hundreds of responses from *NPN* marketer and C-store readers around the country, indicate that while there are still problems the majority of the companies surveyed are faring pretty well in today's marketplace. And many are looking towards better things ahead.

For example, many of the marketer and C-store executives have expectations of improved sales and margins in the year ahead. And, at least one-third of the survey respondents plan to expand their retail holdings in 1992.

Other highlights of the survey:

- The majority of petroleum marketer respondents now operate convenience stores.
- Marketers and C-store operators both average 8¢/gal. gross margin on gasoline sales.
- The typical marketer in the survey sells 20-million gal. of motor fuel per year, including diesel. C-store operators average 25-million-gal. in sales annually.
- The average marketer respondent has 47 full-time and part-time employees, while C-store firms have 72 full-time and part-time people on their payrolls.
- Nine out of 10 marketers operate their own product delivery trucks, but only one-third of C-store operations have their own fleets.

Survey objective

The goal of this survey was to develop information on the operations and activities of petroleum marketers and C-store companies which own, operate or

lease retail and/or wholesale motor fuel facilities.

The completed survey includes the usable responses from 743 marketer and C-store company subscribers out of a total of slightly more than 2,400 questionnaires mailed out to *NPN* readers. The mailing took place in September last year, and the cutoff for responses was mid-October. Questionnaire processing and tabulation was handled by a research and tabulating firm in the suburbs of Chicago.

While the response rate of 31% is considered excellent by any normal measure of random sampling, this survey is not to be viewed as projectible over *NPN's* entire subscriber list. Major oil company and independent refiner subscibers, for example, were excluded from the questionnaire mailing to maintain the sampling focus on marketer and C-store company operations. The editors are confident the data generated by the survey responses reflect the entire petroleum/C-store reader base.

The charts and tables in this report highlight just about all of the major data gleaned from the survey responses. On several of the questions, for obvious reasons, the response rate did not total 100%, and in somes cases, where multiple answers were indicated, exceeded that percentage. Where the response rate for a specific question has a bearing on the information, it is indicated in the appropriate chart.

Message from the top

Almost nine out of 10 of the survey respondents are chief executives or chief operating officers with their firms—the folks who make the key decisions on policy, people, purchasing and investments, expansion and acquisitions (or retrenchment) and marketing programs and pricing.

Breaking out the titles of the individuals responding to the survey indicates that half are company owners or co-owners, 36% are company presidents, 9% list themselves as chief executive or chief operating officers (CEO/COO) and 11% identify themselves as marketing executives and others. The figures add up more than 100% since some respondents checked off more than one title, such as "president and CEO."

The average petroleum marketer in the survey has 28 full-time employees and convenience store companies employ an average of 37 full-timers. What's interesting here is the average number of part-time employees: 19 for marketers (40% of total payroll employees) and 35 for C-store operators (almost half of the total). This indicates a heavy reliance on part-time help in key operating positions such as store clerk, driver, office clerk, bookkeeper, etc.

Where marketers get product

Major refiners, as might be expected, are the primary gasoline supplier for both marketers and C-store respondents who sell gasoline. More than two-thirds (71%) of reporting marketer firms obtain gasoline supplies from major oil companies, 25% get product from independent refineries and 30% access a variety of other sources. (These percentages add up to more than 100% because many marketers source their gasoline and other fuels from different suppliers.)

Almost three out of five (58%) of C-store operators are supplied by major refineries, 24% are supplied by independents and 36% purchase product from other sources. Larger marketers and C-store firms—those selling more than 15-million gal./yr.—generally buy most of their gasoline, upwards of 80%, from the majors.

As for automotive diesel fuel, 96% of the surveyed marketers handle this product and 68% of these rely on major refineries for their supplies. But only 52% of those C-store operators who also sell diesel (80% of the total) rely on major-supplied product.

Major companies supplied 65% of the marketers who reported selling distillates or heating oil, while independents supplied 28%. In the C-store category, 56% of the firms obtained distillates from major suppliers, and 21% sourced independent refiners. Among the marketer companies responding, 87% say they sell distillates. However, less than half, or 46% of the C-store firms responding to the survey, report selling distillate fuels.

A much lower percentage of marketers and C-store firms are involved in the residual fuel market. Only 36% of marketers (55% supplied by majors) and 21% of C-store companies (48% major supplied) handle residual.

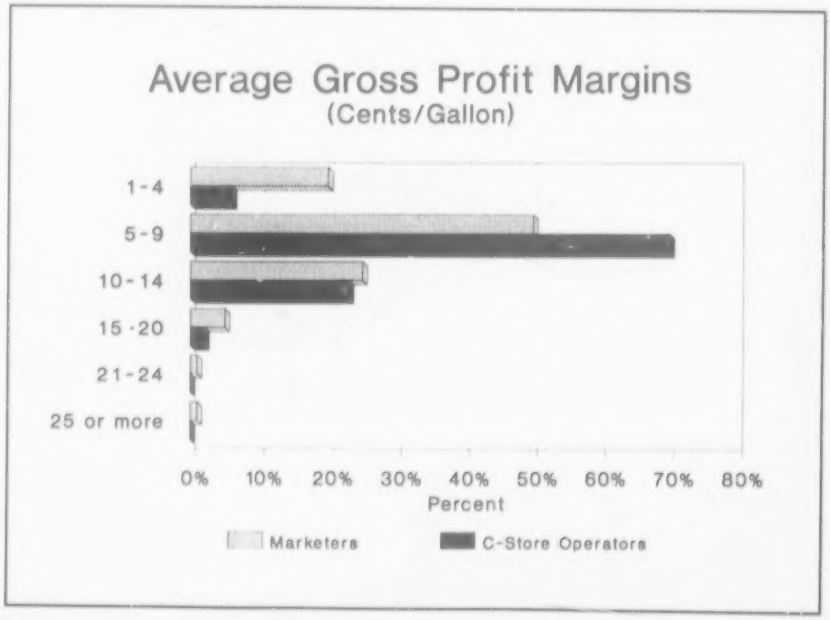
Motor fuel sales

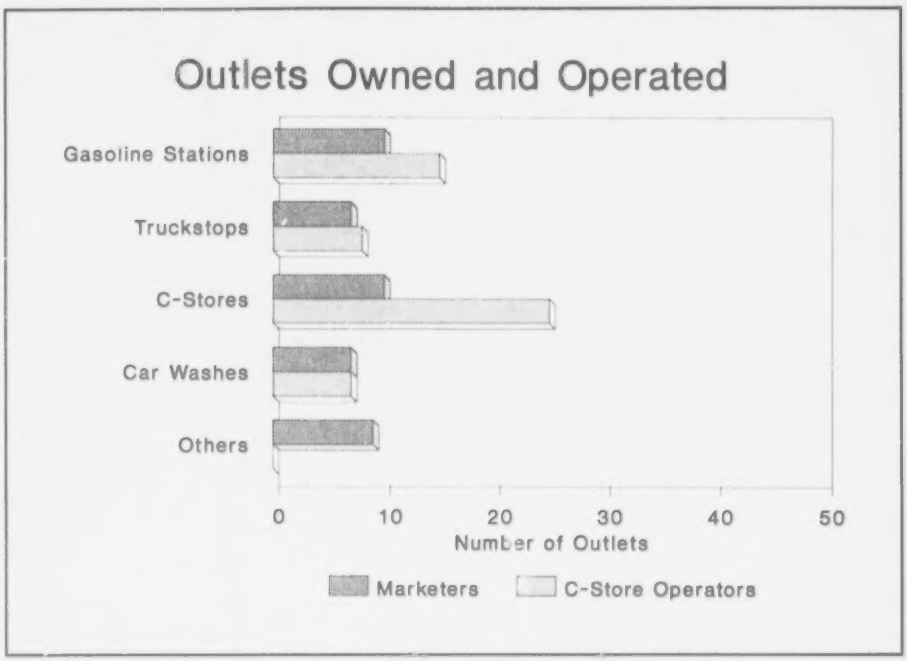
In 1991, the average petroleum marketer anticipated sales by year-end of 12-million gal. of gasoline and another 8-million gal. of automotive diesel fuel. This puts marketers' total average motor fuel sales for 1991 at the 20-million gal. level for this survey. For the same period, C-store operators were projecting sales of 17-million gal. of gasoline and 8-million gal. of diesel, for a total throughput of 25-million gal. of motor fuel.

Two out of five (43%) marketers and 46% of C-store firms fall into the lowest range, or under 5-million gal./yr. in annual gasoline sales. This data corroborates the general industry assumption that a high percentage of petroleum/C-store firms are truly small businesses. Still, a substantial number of respondent companies, about 15% of the total, are good-sized gasoline marketers with annual throughputs of 25-million gal. and more.

As for automotive diesel fuel, 71% of marketers and 66% of C-store firms expected sales of 1-million to 5-million gal. in 1991.

On the whole, both marketers and C-store operators are upbeat about the prospects for gasoline sales in 1992.



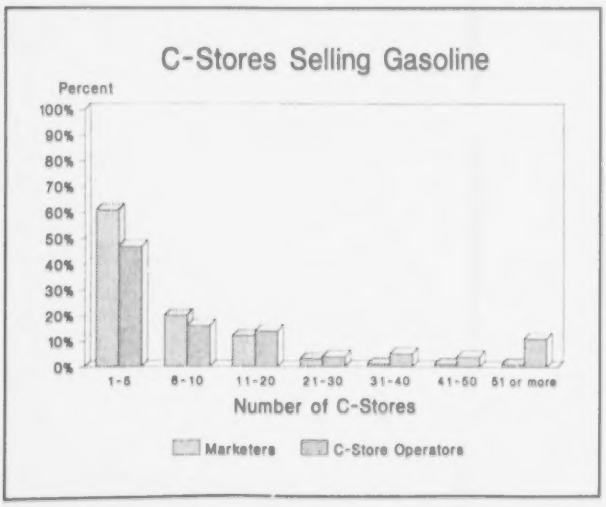


Two-thirds (66%) of the responding marketer firms say they anticipate selling more motor fuel in the year ahead. And 78% of the C-store firms selling gasoline also say they expect to increase gasoline throughputs in 1992.

Motor fuel sales increases are forecast by a majority of marketers and C-store firms in all size categories, from those in the 1-million to 5-million gal./yr. range to those with annual sales of more than 100-million gal.

The projected increases are more than just a trickle, too. A little over half (51%) of the marketers and C-store operators (52%) who forecast higher gallonages in 1992 say they expect increases in the 5-10% range, and 18% of marketers and 17% of the C-store group anticipated bigger increases than that, from 11% up to 20% and higher.

However, there are those who anticipate declining fuel sales, too. About one-third (33%) of petroleum marketers believe their motor fuel sales will decline this coming year, but only one out of five (19%) of the convenience store chains selling gasoline foresee a dropoff in sales in 1992. To a moderate degree, more smaller firms expect fuel sales declines than larger companies. About 40% of the marketers and 63% of the C-store chains expecting lower fuel sales forecast a decline of less than 5%.



Margins tight

Gross profits at the pump are not yet what most marketers and C-store operators would like them to be, but for many they aren't so bad either, according to the data supplied by *NPN*'s survey respondents.

Across the board, petroleum marketers and C-store companies report operating on an average rack to retail margin of 8¢/gal. But all companies aren't average, of course. One in five (20%) marketers, but only 6% of C-store firms, are operating in a very marginal and often brutally competitive zone of gasoline profitability, with margins in the 1-4¢/gal. range.

Half of the marketers (50%) and 70% of C-store chains reported average gross profitability in the 5-9¢/gal. range. One out of four marketers (25%) and 23% of C-store operators had margins in a range of 10-14%. One marketer averages 21-24¢/gal. gross profit and two other respondents say they were getting more than 25¢/gal. Were these last two marketers sacrificing volume for margins? Perhaps. But one of the two also reports annual gallonage in the 20-million to 25-million/gal. range, pretty good throughput for a high-margin marketer.

How many outlets

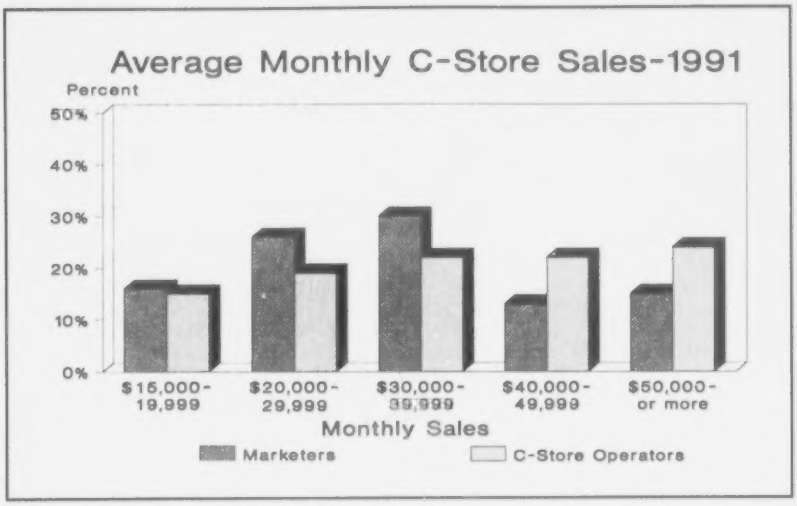
Marketer companies which have their own gasoline stations each report owning and operating 10 such facilities. Marketers with truckstops own an average of eight units. Those which own and operate convenience stores also report having 10 each. Marketing firms which also operate car washes, a relatively small sampling in *NPN's* survey, have an average of 8 units.

The typical convenience store respondent in the survey owns and operates 25 C-stores.

Marketer companies which lease gasoline stations to dealers have an average of 10 leased units under their wing. However, it should be noted that only 25% of the responding marketers actually reported leasing stations to dealers. The number of marketers leasing out C-stores to independent operators was also small, only 13% of respondents. The average number of leased C-stores per company was 11.

Only 10% of the responding C-store companies lease stores to independent operators. However, the average number of leased units is pretty high, about 25 per company.

It may not be the best of times in the petroleum/C-store industry, but a fair number of marketers say they have plans



to expand their retail operations in 1992.

Three out of 10 marketers (30%) say they plan to increase the number of retail outlets they own in 1992. A substantial percentage of C-store companies (36%) also will be adding to their store counts in 1992. On the whole, a higher percentage of the larger companies compared to smaller jobbers indicate plans to add outlets during the year. For example, 15 out of 20 firms selling 50-million to 99.9-million gal./yr.—that's 75% of the respondents in this group—say they would add outlets. More than one-third (35%) of the 5-million to 9.9-million gal./yr. companies (45 total) and 45% of those in the 10-million to 14.9-million gal. group (39 firms) also plan to boost their outlet counts.

On average, petroleum marketers who have plans to expand in 1992 anticipate adding 3.5 outlets, while C-store firms say they will add 4.3 outlets.

Some companies in the survey expect to downsize their retail operations this year. However, the number of firms anticipating a decrease in their outlet counts is much less than the number of companies planning to expand. Only 88 out of 467 marketers (19%) responding to this question plan to close or otherwise dispose of retail properties in 1992. These marketers say they will trim down by an average of 3.4 outlets.

Nine out of 94 C-store firms, less than 10% of the total, say they expect to lower their outlet counts in 1992, by an average of three stores per company.

It may come as a surprise to some industry observers, but many petroleum marketers have maintained a presence in TBA and automotive service at some of their retail outlets. *NPN's* survey found almost two-thirds of marketers—367 out of 557 firms—responding to the question "How many of your outlets have service bays?" affirm they have outlets with bays. The average number of stations with bays per company is six. Most of these marketers (77%) have between one and five service outlets, but 42 have more than 11 such outlets, including 24 companies with more than 21 units with bays.

The C-store connection

These days, most traditional petroleum jobbers are firmly staked out in the convenience stores business.

Three out of five marketers in the survey—336 firms out of 557—report operating convenience stores. The average is six C-stores per company. About 70% of the companies have between one and five stores, 18% operate between six and 10 stores and 12% have more than 11 stores. The average number of stores operated by the reporting C-store firms is 17.

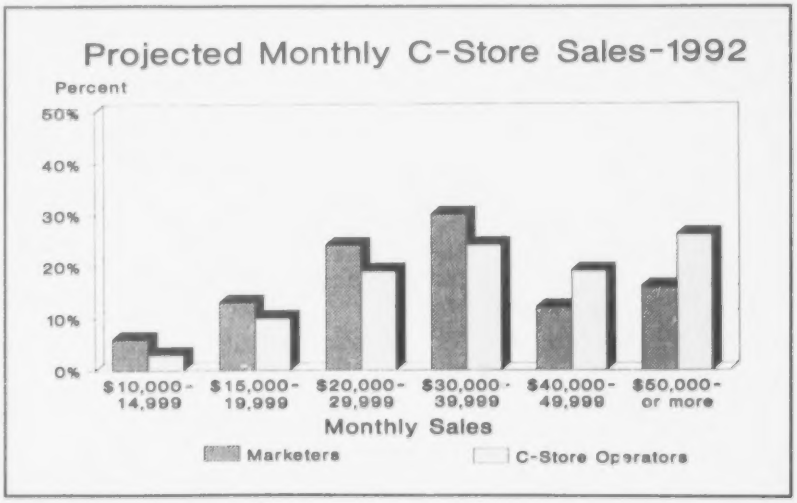
The average size of a marketer-operated C-store is 1,831-sq.ft. The typical store operated by a C-store firm is very close in size, at 1,858-sq.ft., to the average marketer outlet. Stores for both groups run to the larger sizes; only 16% of marketer units and 18% of C-store company outlets are under 1,000-sq.ft. As shown in the accompanying chart, the bulk of stores fall into the 1,000 to 2,400-sq.ft. size category. One out of five C-store company outlets and 16% of marketer stores are 2,400-sq ft. to 3,000-sq.ft.

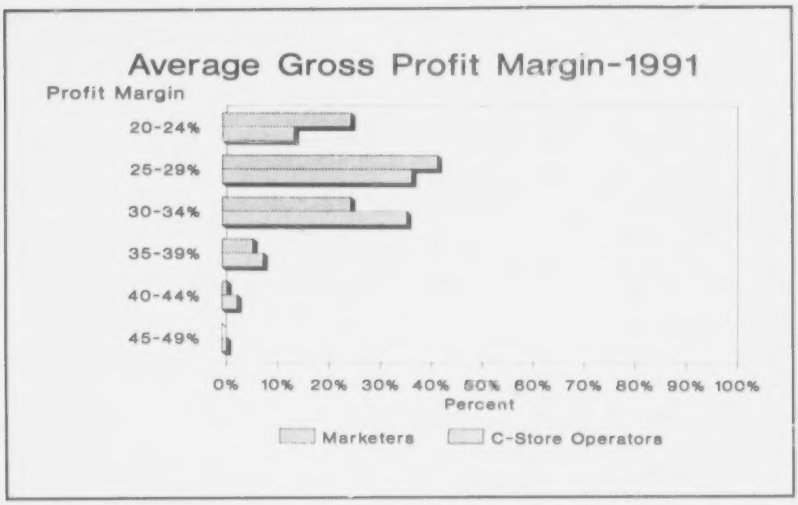
C-store merchandise sales are doing pretty well, too. In 1991, C-stores operated by petroleum marketers had average monthly sales of $36,800, excluding gasoline. Stores operated by C-store firms had monthly merchandise sales of $42,100. Almost one in six marketers (15%) and one in four C-store companies (24%) had average monthly store sales in excess of $50,000.

Respondent firms don't expect much change in merchandise sales in 1992. C-store firms expect a slight increase in monthly store sales—to $42,800—in 1992. Marketer firms, on average, expect monthly sales to be $36,900, about the same as in 1991.

C-store companies do slightly better on average gross profit margins on merchandise sales than petroleum marketers. The average gross margin reported by C-store operators in 1991 was 29.5%, compared to 27.9% for marketers.

While one in four marketers (24.4%) had margins in the lower 20-24% bracket, only one in seven convenience store firms (14.4%) had margins in that range. Also, 36.5% of the reporting C-store firms had margins in the above average 30-34% range, in comparison to 24.6% of





marketers in that same range.

Three out of 10 marketers (30%) and 37% of C-store operators expect improvements in store profit margins in 1992. The 102 marketing firms predicting higher margins in *NPN's* sampling expect an average increase of 4.8%. For 38 responding C-store companies, the anticipated average increase is 3.8%.

Trucks

The company-owned truck is still the mainstay of marketer fuel delivery operations, but much less so for C-store/gasoline operators. Almost nine out of 10 marketer firms (87.8%) operate their own fleet of trucks. However, only one-third of C-store firms (33.3%) report operating their own trucks.

On the other hand, use of hired transport equipment is common among C-store firms, with 63 out of 91 respondent companies (69.2%) indicating they use common carriers to deliver product. And, though most marketers have their own truck fleets, almost seven out of 10 also use common carriers for their transportation needs.

The average marketer operates 8.1 trucks. At the low end, 112 marketers (24% of the total response group) own between one and three trucks, and at the high end, 51 companies (11%) operate more than 20 trucks. The typical C-store chain operates 6.6 trucks.

On the question of type of fleet operated, 93% of the marketers say they have tank trucks, 62% have tank trailers and 59% have truck tractors. These percentages add up to well over 100% since many marketers operate different types of rolling equipment. In the smaller C-store sampling, about 46% of respondents say they have tank trucks, 61% operate tank trailers and 61% have truck tractors.

The typical marketer uses an average of 3.4 trucks for gasoline deliveries, 4.1 units for distillate deliveries and 4.5 trucks to haul residual fuel.

Company-operated bulk fuel storage facilities are still popular with, or at least utilized by, most petroleum marketers. More than four out of five marketer firms (83%) operate bulk plants for product storage. However, C-store chains selling motor fuel maintain much fewer bulk storage facilities, with only 18.3% of the respondents in this group indicating they have bulk plants.

Most of the marketers and C-store operators in the survey indicate they have been upgrading and modernizing their retail facilities in the past two years. In that time frame, 90% of marketers and 80% of C-store firms which responded have purchased gasoline and diesel fuel dispensers. A high percentage of companies have also been investing in underground tanks and piping, electronic POS (cash registers, card readers, etc.) and the like in that period.

Petroleum equipment distributors remain the solid first choice of marketers (91%) and C-store firms (81%) as equipment suppliers.

How readers rate *NPN*

The editors asked readers to indicate those issues and topics they were most interested in reading about in 1992. There were no surprises here: environmental issues and regulations, closely followed by convenience store operations, were the top two choices. Other areas of interest included economic and financial issues, market competitions, reformulated fuels and legal and legislative issues.

Rating the magazine's monthly departments, readers gave high marks to just about all of *NPN*'s regular monthly features and columns. As might be expected, the highest rated departments are the magazine's "Green Pages" (Ahead of the News, Trends, etc.) and General News section. However, other departments also score highly in the "read with interest" measurement.

Marketer companies and C-store firms average nearly two paid subscriptions per company to *NPN*. However, the magazine has a much broader readership base than the simple subscription numbers. In addition to being read by the primary subscribers, the survey found that the magazine is passed along to more than two additional executives or key staffers in the firm.

NPN editors are planning to conduct this marketers and C-Store operator research every two years in an attempt to compare current statistical results with future developments within the petroleum industry. NPN